Currents

- PRODUCTIVITY IN THE WEST
- ALBERTA'S BIOTECH SECTOR
- MUNICIPALITIES AND THE DEFICIT WARS

CanadaWest FOUNDATION

Western Canada's Monthly Economic Bulletin

Vol. 2010, No. 2

Monthly Highlights

Employment in Canada increased by 43,000 in January from December, pushing the unemployment rate down 0.1 percentage points to 8.3%. British Columbia and Manitoba came second and third in job creation numbers, with gains of 12,000 and 8,000 positions respectively. BC employment has been trending up since July 2009. Unemployment rates were either unchanged or lower all over the West in January. Manitoba's jobless rate dropped by 0.4 percentage points from 5.8% to 5.4% as job creation exceeded the growth in the labour force.

In December, national consumer prices rose by 1.3% (year-to-year), reflecting higher gasoline prices. Inflation rates were lower than the national average in all western provinces, with BC (+0.4%) and Alberta (+0.6%) lower than in any other province. Gasoline price increases of more than 20% were offset by declines in shelter costs in both provinces.

Still in December, the number of housing starts in BC was up 8.3% compared to November, reaching a level of 22,200, the highest since October 2008. In Manitoba, housing starts declined by 15.0% dropping below the 4,000 mark for the first time in six months.

In November, wholesale trade rebounded compared to the previous month in Saskatchewan (+5.7%) and Manitoba (+4.6%) following similar declines in October. Retail sales were up 0.6% in BC, continuing a trend observed since the beginning of 2009, but down elsewhere in the West. Saskatchewan's retail sales fell 1.1%, the largest decline in percentage terms in the country.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,281	1,988	520	612	16,924	January
% change	0.5	0.4	-0.4	1.4	0.3	
Unemployment rate (%)	8.1	6.6	4.7	5.4	8.3	January
change in percentage points	-0.2	0.0	-0.1	-0.4	-0.1	
Participation rate (%)	66.3	73.4	69.5	69.7	67.1	January
Average weekly earnings ($)	798.86	967.00	816.31	783.65	830.46	November
% change	-0.5	1.8	0.4	-0.2	0.4	
Inflation						
Consumer Price Index (% change)*	0.4	0.6	1.1	1.1	1.3	December
Economic Activity						
Housing starts (000s)**	22.2	27.8	4.5	3.4	177.8	December
% change	8.3	5.3	-30.8	-15.0	5.8	
Retail trade ($M)	4,679	4,611	1,179	1,275	35,247	November
% change	0.6	-0.8	-1.1	-0.2	-0.3	
Wholesale trade ($M)	4,080	4,675	1,270	1,104	42,366	November
% change	1.0	0.4	5.7	4.6	2.5	
Manufacturing sales ($M)	2,785	4,757	885	1,148	42,591	November
% change	-0.8	1.4	2.2	-2.9	0.1	

** Compared to same month in the previous year. ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels). Unless otherwise noted, data are seasonally adjusted and percent change is from previous period. Source: Statistics Canada, Canada Mortgage and Housing Corp.*

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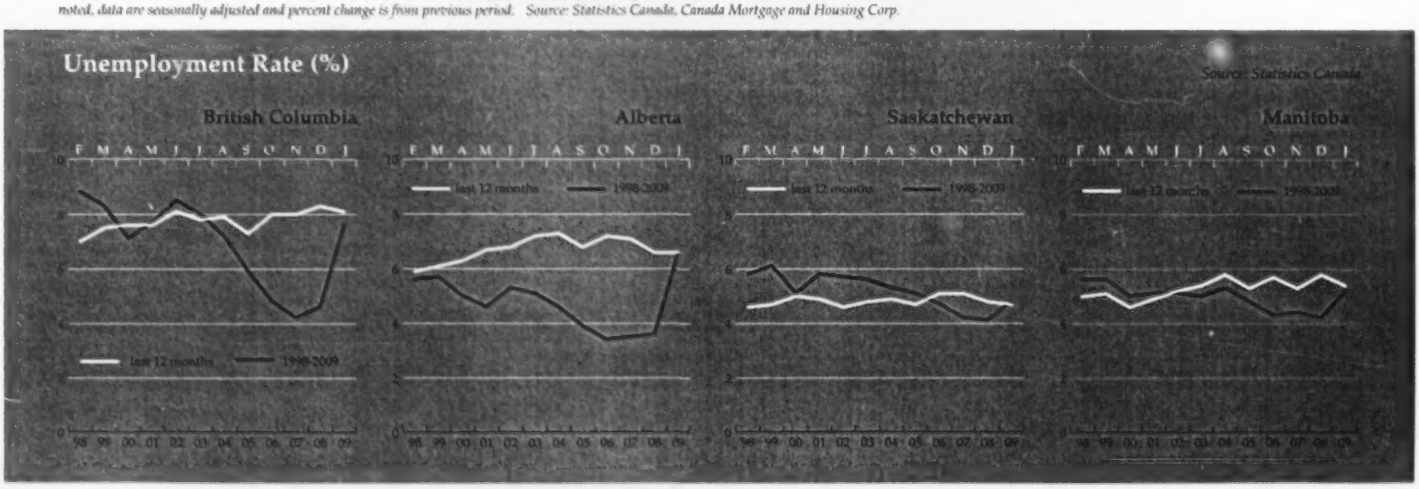


Did you know?

- There were 1.6 million tickets available for the Vancouver Olympic games. Overall revenues are expected to be split as follows: 50% from broadcasting, 40% from corporate sponsorship, 8% from ticket sales and 2% from licensing.

- Lake Louise and the province of Alberta both take their name from Queen Victoria's fourth child, Princess Louisa Caroline Alberta, who married Governor General John Campbell.

- Elie, Manitoba was hit by Canada's first documented F5 tornado (the highest rating) in 2007. The Elie tornado was on the ground for about 35 minutes, and traveled for a distance of about 5.5 km. Damage occurred in a swath up to 300 metres wide.

- Saskatchewan's forests are the same size as the country of Germany.

- The most spoken First Nation language in Canada is Cree, with nearly 100,000 speakers.

- At 9.3%, Canada has one of the lowest rates of self-employment within the OECD.

Monthly Feature

The West Productivity Picture

Speaking in Winnipeg, Bank of Canada Governor Mark Carney recently called Canada's economic productivity record "abysmal." He warned that Canada stands to lose over $1 trillion in economic output over the next ten years if productivity fails to improve. Western Canadians should take heed. More about this in a minute. But first, what is productivity? Why is it important? Why should western Canadians be concerned?

Productivity is a measure of how much an economy can accomplish—how much we produce relative to how much we work. For example, all of us have sat down after work and said, "This was a useless day. Everything got in the way. Nothing was done." That is poor productivity. The opposite sentiment is "I cannot believe my memo was the most important thing the boss saw all year. I spent only five minutes on it." That is great productivity.

While the theory behind productivity is clear, it is not so easy to measure. Most economists prefer to use labour productivity—GDP per hour worked—and also focus on how that is changing over time. This is easy to measure, even if it overlooks the importance of other factors.

When it comes to changes in productivity, imagine yourself on the factory floor. Your job is to operate a machine that assembles 100 widgets an hour. The next day, you get a new machine that can do 200 an hour. Are you working harder? No. Has your productivity increased? Yes.

Gains in productivity are important because with them comes a higher standard of living. People become wealthier when they produce more—and sell more—while working the same, or even less.

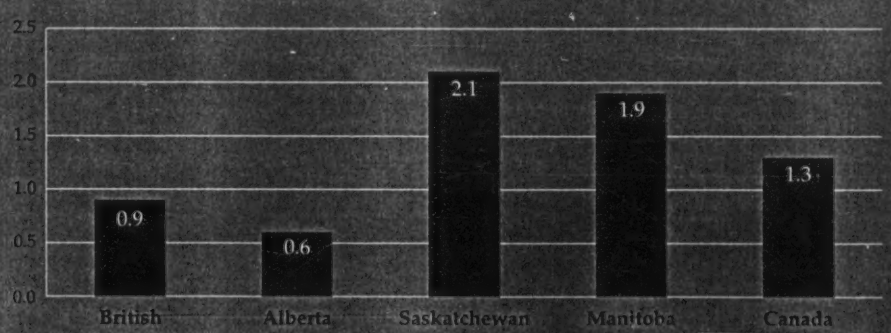
With that little bit of theory out of the way, how has the western economy been performing? The figure below shows the gains in labour productivity across Canada and the four western provinces between 1997 and 2008. The results are somewhat distressing, if not surprising.

The two largest economies in the West—BC and Alberta—have productivity gains well below the national average. There are a multitude of reasons why this might be the case, but at least two factors are responsible. First, the resource boom of the past decade, coupled with high commodity prices, has pushed firms in BC and Alberta to commit more labour and capital to extracting "hard-to-get" resources such as oil sand bitumen and shale gas. A lot of "work" is being spent on developing difficult resources, resulting in lower overall productivity. Second, both provinces have seen rapid population growth. This has triggered significant expansion in the services sector, which typically enjoys lower productivity gains than the goods-producing sector.

On the other hand, productivity gains in Saskatchewan and Manitoba have exceeded the national results. These two provinces benefitted from huge productivity gains in their agricultural sectors, and these were magnified because farming's share of GDP is higher there than in BC or Alberta.

These productivity results, and the Bank of Canada's warning, should be taken seriously by business leaders and policy makers across the West, but particularly those in BC and Alberta. There are plenty of hard days of work ahead on this front. Hopefully, most of those days will indeed be "productive."

Change in Business Sector Labour Productivity from 1997 to 2008
(Average Compound Annual Percentage Change)



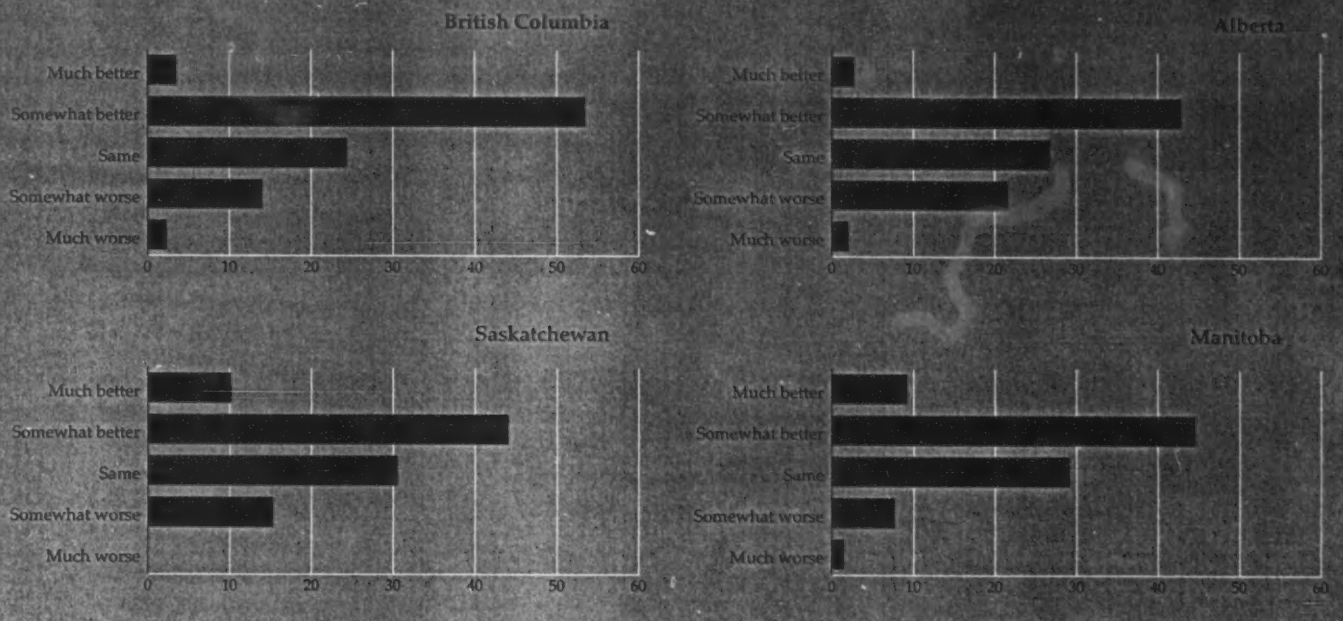
Source: Statistics Canada

BEHIND THE NUMBERS

Last fall, Canada West Foundation and the University of Alberta's Western Centre for Economic Research launched the Western Economic Expectations Survey, the only survey that solicits views about the economy from people in all four western provinces.

Survey respondents from BC were the most optimistic about their province's economic prospects across the next six months, with 57% saying the BC economy would perform better. Albertans were the least optimistic, with only 45% indicating better times ahead. A look at the detailed results shows that each province's job performance since the beginning of the recession has a big impact on people's attitude towards the future. Respondents in Saskatchewan and Manitoba, where there was actually some net job creation during the recession, were more likely to pick the "much better" scenario. At the other end of the spectrum, Alberta suffered the heaviest job losses in the West, and its respondents were the most pessimistic.

How do you expect your province's economy to perform over the next six months?



Source: Canada West Foundation and Western Centre for Economic Research

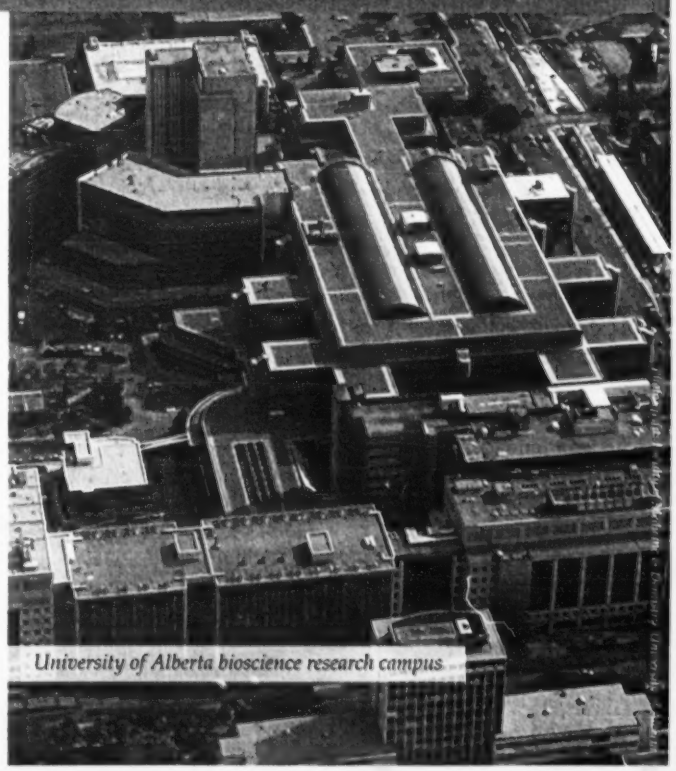
Industry Spotlight: Alberta

Biotechnology

A growing field of research and development in Alberta is biotechnology (the fusion of biology and technology). The majority of Alberta's bioscience companies are found in Calgary and Edmonton, many at or near the University of Alberta.

While Alberta's biotechnology sector only represents 8% of Canada's biotechnology companies, it is the fastest growing biotechnology cluster in Canada according to Alberta Advanced Education and Technology. There are currently over 130 biotech companies working in Alberta, employing more than 4,700 people. They work in areas such as health (e.g., diagnostic imaging), medical device applications (e.g., prosthetics), agriculture, and industrial and environmental bio-products.

An interesting example of biotechnology in Alberta is the field of metabolomics. University of Alberta researchers are leading the way here by uncovering how molecules produced by metabolism—such as sugars and fats—can be linked with computer technology. This will allow medical doctors to better diagnose patients.



University of Alberta bioscience research campus

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opinion

by Jacques Marcil, Senior Economist

The Deficit Wars

If the 2008 recession told us anything, it is how quickly public opinion can flip from being anti-deficit (we gotta keep public finances in order) to being pro-deficit (we gotta fight the recession) and then back to anti-deficit once more (we gotta avoid getting into debt again).

I think we are reaching the last stage. In fact, I think a "war" on deficits is about to start this spring. This is not a bad thing. As a rule, ongoing and perennial deficits do not constitute good fiscal policy. But as governments work to wrestle deficits down, it is important they do not generate unwanted outcomes that do even more damage than the deficits themselves. In other words, governments need to avoid "collateral damage."

In the 1990s, a war on deficits raged across Canada. Federally, the period ran from 1993-2002, with Finance Minister Paul Martin acting as Field Marshall. Victory was achieved. But, it came at a high price. The federal government cut its own spending a little bit, and then cut transfers to the provinces a lot. The provinces then cut their own spending a little bit, and then cut transfers to the municipalities a lot. Municipalities—being at the end of the line—cut their own spending a little bit, then a bit more, and then a lot more. There was simply nowhere else to pass the buck.

It was like neighbours shoveling snow from one yard to the next, with the house at the end of the street getting stuck with a mountain of everyone else's snow. In this case, that house was local government. True, Canada received a lot of international attention for cleaning up the public finances, but those accolades landed primarily at the federal level. Scrutiny across all levels of government would have presented a somewhat different story.

While there was collateral damage in a number of areas, one of the most significant was the fall-out at the municipal level. All over the country, the vast majority of cities, towns and villages came out of the deficit fight weakened. Municipalities—with a limited revenue base—were required to do more with less. When faced with a serious revenue squeeze, they decided to postpone critical infrastructure investments.

The last deficit fight ended nearly 10 years ago. Since then, municipalities have just started picking up the pieces, thanks in part to some national multi-billion dollar infrastructure programs and initiatives. Given this, it would be unwise for local governments to be the target of deficit wars once again, especially considering the critical role that cities play in attracting the best and the brightest, and pushing Canada further into the knowledge-economy era.

Financial negotiations between government levels will always involve a bit of friction, especially inside a federation of unevenly-sized jurisdictions like Canada. Fair enough. So, we can expect to witness some friction again this time around. But Canadians should not put up with another war on deficits where the last war's victims are hit once again.

Later this spring, Canada West Foundation will be releasing *Red Ink Revisited*. This study is an updated look at provincial and federal finances over the past 20 years. It builds on a very successful series published by the Foundation in the early 1990s, which was designed to educate and to inform.

While we will not tip our hand, that report will most certainly make the case that the federal and provincial governments have to take some stiff medicine themselves this time.

One idea? Start getting serious about some fundamental tax reform. Move away from hard-hitting corporate and personal income taxes and start embracing value-added sales taxes that raise revenue with less economic cost because the only legal way you can avoid them is by saving more. This will boost our prospects for economic growth across the long-term. And, a growing economy is always the best way to fight deficits. ■

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